



Consultation on Prudential Standard SPS 515
SuperRatings' Submission
June 2019

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1. Introduction

SuperRatings would like to thank APRA for providing us with the opportunity to comment on the proposed revisions to the *Prudential Standard SPS 515 Strategic Planning and Member Outcomes* (SPS 515).

SuperRatings is a research and consulting firm, which has been assessing and rating superannuation funds and products for more than 15 years. We are therefore well placed to comment on the development of member outcomes assessment framework.

Please feel free to contact any of the following SuperRatings team members should you have any questions or require further information:

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2. Comments on SPS 515

2.1. Business performance review (paragraphs 13 to 16)

The current SPS 515 introduces the new “business performance review” requirement that covers both the monitoring of business plans and the outcomes assessment. Compared to the previous SPS 515 which is silent on how the outcomes assessment sits in relation to business plan monitoring (whether it is a part of the latter, subsumes the latter or two separate exercises), the current SPS 515 provides clear guidance that these are two separate exercises. We view this as an improvement in the current SPS 515. This provides a more logical structure as we consider there is a need to distinguish the outcomes assessment process from business plan monitoring.

- The outcomes a fund seeks for its beneficiaries, once identified, should not vary much from year to year. This ensures consistency of objectives and comparability across the years to demonstrate improvements in the fund's performance.
- We would expect to see more variation in a fund's business plan depending on the fund's priorities in the year. It may be an upgrade to administration system in one year and revamping its financial advice model the next year.

Therefore monitoring of outcomes and a fund's business plan would necessarily involve different criteria and should be separate processes as is the case under the current SPS 515.

SPS 515 paragraph 14(a)(ii) and (iii) indicates that APRA is envisaging two parts to the outcomes assessment, one as prescribed in the relevant legislation and the other involving outcomes for different cohorts of beneficiaries. However we do not believe that this structure provides clear guidance to funds on how they should perform the outcomes assessment. There are a few reasons:

- The legislative requirements provides that APRA can prescribe additional matters via prudential standards for inclusion in member outcomes assessments (under SIS Act s52(10)(d), s52(10A)(d) and s52(11)(e)). So any additional requirements APRA determines already fall under paragraph 14(a)(iii).
- Paragraph 14(a)(ii) seems to be more about methodology of how the outcomes assessment should be performed (requiring funds to distinguish cohorts and determine objective benchmarks), rather than the content of outcomes (what areas in addition to those prescribed in the legislation need to be included in an outcomes assessment).
- It is unclear if cohorts consideration in 14(a)(ii) apply to the outcomes assessment under 14(a)(iii), or is latter exempt from cohort considerations.

We would suggest that in the SPS 515 section on “Business performance review”, it is sufficient to just specify that the outcomes assessment forms part of the business performance review. Any further details or specification of the outcomes assessment should be moved to the later section on “Annual outcomes assessment” (paragraphs 20 and 21 in the current draft SPS 515). This would summarise all APRA’s requirements in relation to outcomes assessment in one section.

In addition, APRA should clarify if cohort considerations apply to the legislatively prescribed member outcomes assessment areas. We think they should, in particular with respect to insurance. APRA also needs to be specific on what additional areas (other than those in the legislation) are subject to member outcomes assessment.

2.2. Annual outcomes assessment section (paragraphs 20 and 21)

SPS 515 paragraph 20(a) requires the documentation of relative weight given to each factor as part of the overall member outcome assessment. This introduces an additional level of complexity to the outcomes assessment. More guidance is needed to clarify how this will work. Are funds free to choose their own weighting? How often can they vary these weightings? Or will APRA provide indicative weightings for different areas of assessment?

Our initial thought on this is that once a fund has gone through the outcomes assessment on different areas, they would be in a position to justify their conclusion on the overall outcome. At this stage, a qualitative assessment would be sufficient. A quantitative assessment based on weighting may actually complicate comparisons between different funds. However we would welcome additional information on how APRA envisages the weighting system would work.

SPS 515 paragraph 20(b) mentions SIS Regulations in relation to determination of comparable choice products. To our knowledge, there has not been any SIS Regulation specifically on member outcomes. We suggest it is unnecessary to mention SIS Regulation here.

The previous SPS 515 required funds to explicitly state what are the outcomes a fund seeks to provide to beneficiaries (see paragraph 17(a) of the previous SPS 515). The current SPS 515 no longer has this explicit requirement. We think it would be worthwhile to reinstate this requirement as this provides clarity on what each fund is seeking to achieve for their members.

2.3. Other comments

The legislative requirement on annual outcomes assessment came into effect on 5 April 2019. This would suggest the first annual assessment needs to be completed by April 2020. The current SPS 515 comes into effect on 1 January 2020 and requires the first assessment to be completed by 31 December 2020. There needs to be clarification on the deadline of the first annual assessment.

3. About SuperRatings

SuperRatings is a superannuation research and consulting company providing data analysis, information, bespoke services and product benchmarking to the superannuation industry, corporate sector and the general public. SuperRatings prides itself on providing impartial advice to funds and employers, therefore our ratings methodology includes all superannuation funds and we limit the ratings percentile bands of funds to ensure our assessment remains independent. We actively promote engagement, education and ownership of superannuation through the provision of:

- Research analysis;
- Ratings;
- Consultancy services;
- Product reviews;
- Benchmarking; and
- Opinion.

Since its inception, SuperRatings has comprehensively reviewed hundreds of Australia's largest superannuation funds and service providers. SuperRatings currently maintains detailed information in respect of 622 superannuation products, incorporating 113 MySuper products, 327 choice products and 182 pension products as well as 70,000 insurance product lines of premiums which are all housed within our in-house proprietary database, SMART.

We believe we offer the most extensive industry coverage accounting for over \$1.38 trillion in funds under management and over 23 million member accounts. This allows us to understand the various costs, fees, products, services and performance of superannuation funds and benchmark these against the broader market.